MOODY'S
INVESTORS SERVICE

## New Issue: MOODY'S ASSIGNS Aa1 RATING AND STABLE OUTLOOK TO THE IDAHO BOND BANK AUTHORITY REVENUE BONDS; $10.8M AFFECTED

Global Credit Research - 11 Aug 2011

**APPROXIMATELY $245 MILLION OF DEBT AFFECTED, INCLUDING CURRENT OFFERING**

Payette (County of) ID
Other Sectors
ID

**Moody's Rating**

| ISSUE | RATING |
|---|---|
| Revenue Bonds, Series 2011A | Aa1 |

| | |
|---|---|
| **Sale Amount** | $10,800,000 |
| **Expected Sale Date** | 08/16/11 |
| **Rating Description** | Revenue Bonds |

**Opinion**

NEW YORK, Aug 11, 2011 -- Moody's Investors Service has assigned an Aa1 rating and a stable outlook to the Idaho Bond Bank Authority Revenue Bonds, Series 2011A expected to be issued in the amount of $10.8 million. At this time, Moody's affirms the Aa1 rating on the Idaho Bond Bank Authority's outstanding bonds in the approximate amount of $234 million. All of the bond bank's debt is currently fixed rate obligations. Proceeds from the current offering will be used to refund previously issued debt of three new program participants. Proceeds from the current sale are secured by the unlimited ad valorem property tax pledge of two participants and the net revenues from the third participant's combined water and sewer system. Further security is provided by the state intercept whereby intergovernmental revenues will be transferred directly to the trustee to pay debt service if payment has not been received within ten days of the debt service payment date. Importantly, the 2011A bonds are also secured by a pledge of the state's sales tax revenues.

SUMMARY RATINGS RATIONALE

The Aa1 rating primarily reflects the broad pledge of the State of Idaho's (Issuer Rating Aa1, with a stable outlook) sales tax revenues, the state intercept mechanism, and satisfactory payment timing. The rating also takes into account the average credit quality of current and prior participants.

STRENGTHS

-Recent improvement in state sales tax revenues

-Multiple layers of security

CHALLENGES

-Somewhat concentrated among small number of participants

-Sales tax pledge also back state's two school bond guaranty programs resulting in further leveraging of state's primary revenue

BOND BANK AUTHORIZED BY CONSTITUTION AND STATUTE AND APPROVED BY VOTERS

The Idaho Bond Bank program was authorized in 2001 as a result of a series of legislative and voter-approved actions. The Legislature approved an amendment to the Idaho State Constitution (Article VIII, Section 2A); the voters of Idaho approved the creation of the Idaho Bond Bank and the state sales tax pledge in 2000. The program was authorized in 2001 by the Idaho Bond Bank Authority Act (Title 67, Chapter 87 of the Idaho Statutes), which established the bond bank to provide Idaho communities with an attractive mechanism for financing local infrastructure. Under the bond bank program, each series of bonds is secured by a pledge of the underlying borrowers. The security set forth in each underlying borrower's loan agreement may include, but is not limited to a general obligation, pledge of net enterprise revenues or property tax assessments. Further, the bond bank program includes a credit review process and minimum credit criteria for potential borrowers. The process includes a qualitative component ensuring eligibility in the program, the legal authority to borrow, and a review of the borrower's capital planning program. The quantitative component evaluates criteria including the historical strength of the borrower's specific pledge, the impact of the borrowing on operating funds, and minimum debt service coverage thresholds, as well as economic, population and tax base trends.

MECHANISM AND TIMING OF STATE SALES TAX PAYMENTS IS SATISFACTORY; PLEDGED STATE SALES TAX REVENUES PROVIDE HEALTHY COVERAGE OF IDAHO BOND BANK AUTHORITY BONDS; BOND BANK BECOMING SOMEWHAT CONCENTRATED

Interest payments are due March 15 with principal and interest due on September 15. Bond bank loan participants are required to pay the bond bank trustee 15 days prior to bond payment. If the participant's payment has not been received within 10 days of the payment date, the trustee is required to notify the state treasurer to implement intercept procedures, if applicable. Finally, if funds are insufficient within five days of the payment date, the state treasurer will transfer from the state sales tax account an amount sufficient to make the scheduled debt service payment.

Due to a constitutional prohibition on the lending of the state's credit to municipalities, Idaho has opted to provide for a pledge of state sales tax revenues to guarantee full and timely payment of loan participant debt service when due. The State of Idaho's Tax Anticipation Notes (TANs) have the most senior lien on the sales tax revenues. The TANs, however, are secured by tax revenues, including individual income, sales tax collections, and corporate income, to be received in the fourth quarter, as well as the state's full faith and credit general obligation pledge. The State of Idaho's Tax Anticipation Notes Series 2011 in the amount of $500 million received a Moody's MIG-1 rating in June 2011 and projected fourth-quarter revenues provide 1.6 times coverage of note principal. Conservatively assuming no fourth quarter sales tax revenues were available in FY 2011 (unaudited), Moody's conservatively estimates coverage of outstanding Idaho Bond Bank Authority MADS at 41.2 times and coverage of combined IBBA and both Idaho School Bond Guaranty programs (ISBG) MADS at 9.9 times.

ISBG bonds issued since July 1, 2001 outstanding in the approximate amount of $610 million have a parity lien on State Sales Tax Revenues. To date, neither ISBG programs (Aaa/ Aa1) have ever made any claims against the State Sales Tax revenues given the voter-approved unlimited ad valorem property tax pledge securing each ISBG participant, presence of Public School Permanent Endowment Fund for the Aaa program, and the state intercept mechanism for both ISBG programs. Typically, the amount of interceptable revenues allocated to a school district far exceed the amount of annual debt service required to be paid in any given year; fiscal 2010 interceptable revenues to school districts participating in the ISBG program provided an average of roughly 15 times coverage of MADS.

Similar to other western states, depressed consumer activity resulted in declining sales tax revenues in fiscal 2009 by 10.3% from the prior year followed by a subsequent 6.4% drop in fiscal 2010. FY 2011 results came in slightly above revised projections increasing 3.8%. Including the current sale coverage of maximum annual debt service (MADS) in 2021 of all outstanding IBBA debt by fiscal 2011 pledged revenues is still strong at 55.0 times. FY 2011 state sales tax revenues also provide MADS (2012) coverage of roughly 13.2 times for both the IBBA program and the two Idaho School Bond Guaranty Programs. As of June 2011, the state's unemployment rate increased and unlike historical trends, matched the nation at 9.3%. To date, the program does not have a borrowing cap, although management has adopted policies that limit individual borrowing amounts relative to outstanding program debt.

Moody's notes management's actions to promote participant diversity is a positive credit factor. In recent years, the program has become more concentrated among only a few borrowers, in particular since 2009. For example five participants each make up between approximately 8% and 12% of total outstanding loans; combined, the top five largest borrowers now represent nearly 52% of total par which Moody's views as somewhat concentrated. A partial mitigant is that three of those five borrowers have pledged an unlimited property tax to repay the loans. Given the program's success and resulting increased borrowings, future reviews will focus on the program's implementation of a borrowing cap and monitoring of existing participant credit quality.

CREDIT QUALITY OF CURRENT PARTICIPANTS IS SATISFACTORY

The current sale includes three separate loans totaling approximately $10.8 million. Two loans are secured by voter-approved unlimited ad valorem property pledges (Payette County and Lemhi County) and the third is secured by the net revenues of a combined water and sewer enterprise system (Garden City). The 2011A borrowing is relatively small and makes up only about 4% of total outstanding loans since the program's inception. The current borrowing is also secured through state intercept payments established under Idaho Code. Importantly, the 2011A bonds are additionally secured by a transfer from the state sales tax account in an amount sufficient to make the scheduled debt service payment.

Each participant in the program is required to execute a loan agreement with the bond bank to provide funds to make payments on the new loan. The bond bank will use these payments to repay the participant's loan funded with the Series 2011A bonds. There are no cross-default provisions in the loan agreements; therefore each participant will not be liable for the failure of any other municipality to make payments with respect to previously issued bonds.

The majority of the 2011A bonds are secured by an unlimited ad valorem property tax pledge of Lemhi County. The loan will be used to refinance the county's previously issued GO bonds for annual debt service savings. The original GO bonds were issued to make improvements to the county's hospital; the county intends to pay a portion of annual debt service from hospital system net revenues. The county is very rural and located in north central Idaho and has a small population of only 7,946 residents. The tax base is relatively small at $759 million and has grown an average 6.02% annually between 2006 and 2010. According to the 2000 census, per capita and median family income levels were slightly below average at 90% and 81% of state levels, respectively. County general fund operations have been strong with ending general fund balances averaging about 87% of general fund revenues between FY 2008 and FY 2010. The county's direct debt burden is average at 1.2%, but direct debt per capita is relatively high given the small population. Lemhi County's Steele Memorial Hospital is an 18 bed critical access hospital. Fiscal year 2010 total operating revenues were $14.95 million, only 3% above the prior year. Operating performance declined slightly in FY 2010 with an operating income of $384,000 (2.6% operating margin), down from $492,000 (3.4% margin) in FY 2009. Operating cash flow declined, but remained at satisfactory levels in FY 2010 at $2.1 million (14.1% cash flow margin) from $2.3 million (15.9% margin) in FY 2009. Positively, unrestricted liquidity balance grew to $2.9 million at fiscal year-end (FYE) 2010 (September 30) resulting in 80 days cash on hand compared to $2.6 million (74 days) at FYE 2009. Coverage of annual debt service by net revenues alone in FY 2010 was 3.35 times. However, management has consistently levied a property tax to pay a portion of ongoing annual debt service to reduce reliance on hospital operations for bond payments.

Garden City is borrowing $1.6 million (14.7% of Series 2011A) and secured by the city's combined water and sewer enterprise system. The city's nearly 12,000 residents are located outside Boise, the state capitol. Proceeds from the current sale will refund prior bonds issued by the enterprise for annual debt service savings. Although cash has traditionally been low for the enterprise, net working capital improved to 16% in FY 2010. In addition, coverage has been healthy averaging over 3.0 times between FY 2008 and FY 2010. Further, the system's debt ratio was a very low 9.1% in FY 2010. Legal provisions include a rate covenant requiring 1.25 times coverage of annual debt service, an additional bonds test of 1.25 times MADS, and a debt service reserve fund funded at only $160,000, which Moody's note is slightly below average annual debt service.

The third participant, Payette County, is borrowing $960,000 (8.8% of 2011A) and secured by an unlimited ad valorem property tax pledge. The loan will be used to refinance the county's previously issued GO bonds for annual debt service savings. The county is located in west-central Idaho with a small population of 22,600 residents. The tax base is relatively small at $1.4 billion (2010) after averaging 6.2% annual growth since 2006. According to the 2000 census, per capita and median family income levels were 84% and 86% of state levels, respectively. County general fund operations have been healthy with ending general fund balances averaging 81% of general fund revenues between FY 2008 and FY 2010. The county's debt burden is a low 0.1%.

**Outlook**

The Idaho Bond Bank Authority's rating outlook is stable based on continued solid coverage of outstanding debt service and a recent improvement in state sales tax revenues. Subsequent reviews will focus on the frequency of future borrowing, dilution of coverage by state sales tax revenues, as well as borrower concentration and credit quality.

WHAT COULD MAKE THE RATING GO UP

-Sustained strong increase in state sales tax revenues

-Trend of reduced borrowing amounts and borrower concentration

-Trend of improved credit quality at borrower level

WHAT COULD MAKE THE RATING GO DOWN

-Significant leveraging of state sales tax pledge

-Use of the state intercept or state sales tax to make up borrower deficiencies

-Increased borrower concentration

-Lack of participant monitoring and program borrowing cap over the medium term

The principal methodologies used in this rating were State Aid Intercept Programs and Financings published in February 2008, and Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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